UNITED
NATIONS

E

Economic and Social
Council

Distr.
GENERAL

E/CN.7/1997/8
18 November 1996

ORIGINAL: ENGLISH

COMMISSION ON NARCOTIC DRUGS
Fortieth session
Vienna, 18-27 March 1997
Item 11 of the provisional agenda*

ADMINISTRATIVE AND BUDGETARY MATTERS

Response to requests by the Commission on Narcotic Drugs contained in its resolution 15 (XXXVIII) and related matters

Report of the Executive Director

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INTRODUCTION

1. The present report has been prepared in response to a request made to the Executive Director in Commission on Narcotic Drugs resolution 15 (XXXVIII), adopted by the Commission at its reconvened thirty-eighth session. The report, which covers administrative and budgetary matters, includes detailed recommendations for change. A progress report on the preparation of final responses to requests of the Commission at its reconvened thirty-eighth session (E/CN.7/1996/15) was submitted by the Executive Director to the Commission at its thirty-ninth session.

2. In section I of the present report, the programme support arrangement for the Fund of the United Nations International Drug Control Programme (UNDCP) is discussed. Section II covers issues of budget methodology, including a new budget concept, recosting methodology and performance reports. Section III reviews the financial functioning of UNDCP with regard to the need to promulgate separate financial rules. The draft financial rules for the Fund of UNDCP that are proposed are already consistent with the modification of the programme support arrangement and budget methodology recommended in sections I and II. All the recommendations are discussed in the comprehensive overview contained in section IV in order to facilitate the deliberations of and action by the Commission.

3. The present report reflects comments received during the thirty-ninth session of the Commission on the progress report submitted by the Executive Director. In particular, the discussion of the ad hoc open-ended working group on administrative and budgetary matters established by the Commission at its thirty-ninth session and the report of the Chairman of that working group, presented to the Commission at its thirty-ninth session, are fully taken into account. Moreover, the required consultations with the relevant offices at United Nations Headquarters, described in the progress report (E/CN.7/1996/15, para. 13), were carried out. Also reflected is the report of the Board of Auditors of the United Nations, which reviewed in 1996 the budgetary planning and reporting for the Fund of UNDCP.

I. PROGRAMME SUPPORT ARRANGEMENT

4. The Commission on Narcotic Drugs, in its resolution 15 (XXXVIII), requested the Executive Director to assess the ability of the programme support cost arrangement to cover the administrative and substantive backstopping of technical cooperation projects and to report on it to the Commission at its thirty-ninth session.

5. A programme support cost arrangement for UNDCP was presented to the Commission at its reconvened thirty-sixth session in a note by the Executive Director (E/CN.7/1993/15). A budget for programme support cost for the biennium 1996-1997 was presented to the Commission at its reconvened thirty-eighth session in a report of the Executive Director (E/CN.7/1995/21).

6. A programme support cost budget was introduced by UNDCP for the biennium 1996-1997 in accordance with the arrangement developed for the United Nations. That arrangement is tailored to the operation of small trust funds funded from extrabudgetary resources and implemented by organizations that often maintain large core activities funded under the regular budget. Essentially, the implementation of projects is made available through technical and administrative support activities. The budget for programme support activities is established in accordance with available programme resources. Such resources are generated through the programme support arrangement and are clearly insufficient to fund all programme support requirements. As a result, the implementation of project activities is supported by the core budget of the organizations involved. Whereas this model appears appropriate for the stated purposes, it does not take into account the operating requirements for the Fund of UNDCP.

A. Programme support activities

7. The UNDCP programme support cost budget is based on the availability of resources generated through the United Nations programme support arrangement. This is done in accordance with procedures regarding the administration of programme support accounts, described in an administrative instruction on programme support accounts (ST/AI/286, annex). Programme support resources for the biennium 1996-1997 are estimated to amount to $4,370,100, or 4.0 per cent of the total estimated project delivery of $110,000,000. The resulting budget for programme support activities is of the same magnitude and insufficient to fund all programme support requirements. For example, in a study sponsored by the United Nations Development Programme (ACC/1993/FB/R.7, para. 2), the actual support requirements were calculated to amount to 31.9 per cent of total project expenditure. The balance between available programme support resources and actual requirements is covered by the core budget of participating organizations, including the funding, executing and recipient organizations.

8. Whereas support from the large core budget for small trust fund activities is acceptable, this does not apply to the Fund of UNDCP. The resources managed under the Fund are of considerable magnitude. In addition, the largest share is allocated to project activities with a rather small core budget. As a result, considerable resources requested and approved under the core budget are required de facto to supplement the small programme support budget. The application of the United Nations programme support arrangement for trust funds leads to a distortion of presentation and prohibits budget transparency. Identifying programme support activities based on actual requirements would enhance budget transparency. For example, a clear link could be established between core, programme support and project activities. Variations in project activities would lead to adjustments in programme support activities. Changes in project activities and programme support activities would not affect core activities and vice versa.

9. It appears that the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and the ad hoc open-ended working group on administrative and budgetary matters recommend identifying the programme support activities that cover all technical and administrative activities associated with the implementation of projects. To do so, it would be necessary to identify which activities of UNDCP are considered core activities and which are classified as programme support activities.

10. Programme support activities are seen to include all technical and administrative activities directly incurred in project execution. As such, a clear relationship can be demonstrated between support and project activity. Project activities cover separately identified undertakings relating to international drug control which directly assist recipient organizations and which are currently grouped into the following four categories: control measures, demand reduction, supply reduction and multisectoral activities. Core activities incorporate the substantive activities associated with the programme of work and related activities, including executive direction and management and administration. The programme of work includes, for example, normative activities and information collection and analysis. Related activities are required to implement the programme of work, including policy planning and administrative services. The programme of work is derived from the mandates given by the Commission and is distinguished from activities of a programme support and project nature. An illustration of core and programme support activities is provided below.

11. The identification of actual programme support requirements was initiated by defining the core and programme support activity clusters. Subsequently, the approved budget for the biennium 1996-1997 was reclassified by analysing the detailed work plan prepared by all offices of UNDCP, including UNDCP headquarters and in field operations. Such a work plan was introduced for the first time for the biennium 1996-1997. The work plan provides a clear link between activity clusters with resource requirements and responsibility units. After identifying the core and programme support activity clusters, the corresponding budget provisions were calculated by identifying staff requirements, travel and consultancy resources. Other resource requirements, such as general operating expenses, supplies and materials, furniture and equipment were apportioned in accordance with the resources identified.

Core activity cluster	Programme support activity cluster
Executive direction and management	*Technical support activities*
Maintain policy dialogue with Governments and partner organizations on international drug control matters and the provision of assistance by UNDCP	Provide technical advice to Governments and executing agencies for the formulation or projects
Manage and direct operations supported under the Fund of UNDCP	Identify project requirements as well as appraise technical issues of project proposals
Consult with current and potential donor countries to secure funding for drug control activities and widen the funding base	Prepare detailed project proposals covering technical and financial issues
Service the Subcommittee on Drug Control of the Administrative Committee on Coordination	Submit and defend proposed project in the UNDCP Project Review Committee
Implement image-building events to promote international drug control and fund-raising to generate resources for drug control	Present and discuss specific project proposals with potential donors
Programme of work	Prepare terms of reference for recruitment of project staff and consultants, evaluate candidates and recommend recruitment
Provide substantive servicing of the Commission on Narcotic Drugs on operational activities	
Issue reports on operational activities to the Commission and to the meetings of Heads of National Drug Law Enforcement Agencies	Monitor the implementation of projects through tracking the delivery of goods and services against project work plans
Prepare country programme frameworks, subregional programme frameworks and strategic country profiles	Review mandatory and ad hoc project budget revisions and associated project modifications
Participate in coordination meetings with United Nations specialized agencies and other intergovernmental organizations	Adjust and reprogramme ongoing projects on a regular basis, together with Governments and executing agencies
Analyse and provide data on international drug control	Provide technical advice in response to queries from executing agencies and Governments in order to facilitate the implementation of projects executed by them
Prepare technical documentation by UNDCP to be submitted to subregional meetings of signatories of the memorandum of understanding in south-east Asia	Prepare and conduct tripartite review meetings with representatives of executing agencies and recipient countries
Conduct programming missions to assess needs for recipient countries for consequent formulation of UNDCP assistance in drug control	Prepare and transmit project progress reports to donors, providing them with financial and programmatic information on implementation of particular projects
Maintain electronic linkages with national, regional and international partner organizations to facilitate exchange of drug-related information	Conduct project evaluation and thematic evaluation
	Provide input on technical matters to internal and external project audits and follow-up to audit reports

Core activity cluster	Programme support activity cluster
Maintain electronic services for Member States, including statistical data banks and documentation of UNDCP	Provide technical support to the organization of major training programmes, such as regional group training and workshops
Provision of expert advice to Governments to support their national policy formulation on national drug control master plans	*Administrative support activities*
	Review and clear project proposals prior to the submission to the UNDCP Project Review Committee
Prepare manuals for training professionals on how to conduct rapid drug abuse assessment	Monitor the matching between project development and approval with availability of funding, in particular special-purpose funding
Carry out analytical, research-oriented, regional and subregional studies on current trends and patterns of the drug trafficking situation	Issue project allotment and allocation advice to executing agencies
Carry out policy-oriented research, including identification of research areas, screening relevant data and synthesizing existing research	Act as liaison with executing agencies with regard to the administrative and financial control of allocated funds and project implementation
Conclude memoranda of understanding with selected key organizations to support integration of drug abuse control issues in activities of partner organizations	Review and approve budgets and budget revisions for projects implemented by UNDCP, Governments and other executing agencies
Support the celebration of the International Day against Drug Abuse and Illicit Trafficking	Review and approve quarterly expenditure reports and cash requirements by executing agencies
Update the United Nations System-Wide Action Plan on Drug Abuse Control	Prepare financial project reports for submission to donor organizations
Administration	Provide administrative support for the implementation of project activities, including support for the recruitment of project staff and consultants, the issuance of special service agreement, travel authorization and the procurement of equipment
Prepare outlines, budgets and performance reports for the Fund of UNDCP and for review by ACABQ and approval by the Commission	Provide input on administrative matters to internal and external project audits and follow-up to audit reports
Prepare financial statements for the Fund of UNDCP for submission to the Board of Auditors, the Commission and the General Assembly	Provide administrative support in the area of budget, finance, personnel, travel and consultants for the implementation of technical support activities at UNDCP headquarters and in field operations
Prepare and monitor work plans for the Fund of UNDCP	Reimburse administrative services provided by the United Nations Office at Vienna, the Office of Internal Oversight Services and UNDP to programme support activities
Provide administrative services in the area of budget, finance, personnel, travel and consultants for the implementation of the activities covered under executive direction and management as well as the programme of work at UNDCP headquarters and in field operations	
Reimburse administrative services provided by the United Nations Office at Vienna, the Office of Internal Oversight Services and the United Nations Development Programme (UNDP) to core activities	

12. The introduction of the new budgetary classification would cover only the budget allocations at headquarters and field operations. The implications are illustrated in tables 1, 2 and 3, which show the structure of the approved budget for the biennium 1996-1997 for the current approach and the proposed approach. As can be seen for the current approach, the total budget for headquarters and field operations amounts to $31,085,800, of which $27,755,200, or 89.3 per cent, is covered by the Fund budget and $3,330,600, or 10.7 per cent, is covered by the programme support cost budget. The programme support cost budget amounts to 3.0 per cent of the estimated project delivery of $110,000,000. Of the total budget at headquarters of $16,650,800, the Fund budget amounts to $13,936,300, or 83.7 per cent, and the programme support cost budget amounts to $2,714,500, or 16.4 per cent. Of the total budget for field operations of $14,435,000, the Fund budget amounts to $13,818,900, or 95.7 per cent, and the programme support cost budget amounts to $616,100, or 4.3 per cent.

Table 1. Introduction of budget for core and programme support activities for headquarters by programme and for field operations by region, biennium 1996-1997

(Thousands of United States dollars)

	Current classification			*New classification*		
	Approved budget for the biennium 1996-1997			*Approved budget for the biennium 1996-1997*		
Programme or region	*Budget of the Fund of UNDCP*	*Programme support cost budget*	*Total*	*Core activities*	*Programme support activities*	*Total*
Headquarters						
Policy-making organs	99.6	--	99.6	99.6	--	99.6
Executive direction and management	3 146.3	176.5	3 322.8	2 591.6	731.2	3 322.8
Programme of work	7 531.7	1 728.6	9 260.3	3 801.9	5 458.4	9 260.3
Programme support	3 158.7	809.4	3 968.1	2 177.5	1 790.6	3 969.1
Total	13 936.3	2 714.5	16 650.8	8 670.6	7 980.2	16 650.8
Field operations						
Africa	2 339.3	22.7	2 362.0	1 281.6	1 080.4	2 362.0
Asia and the Pacific	5 331.1	236.5	5 567.6	2 703.0	2 864.6	5 567.6
Europe and the Middle East	1 132.4	--	1 132.4	581.3	551.1	1 132.4
Latin America and the Caribbean	5 016.1	356.9	5 373.0	2 528.8	2 844.2	5 373.0
Total	13 818.9	616.1	14 435.0	7 094.7	7 340.3	14 435.0
Grand total	27 755.2	3 330.6	31 085.8	15 765.3	15 320.5	31 085.8

13. As a result of the new approach, of the total budget for headquarters and field operations of $31,085,800, $15,765,300, or 50.7 per cent, would be covered by a budget for core activities and $15,320,500, or 49.3 per cent, would be covered by a budget for programme support activities. Moreover, the total budget for programme support activities of $15,320,500 would correspond to 13.9 per cent of

estimated project delivery in the biennium 1996-1997 of $110,000,000. Of the total budget at headquarters of $16,650,800, the budget for core activities would amount to $8,670,600, or 52.1 per cent, and the budget for programme support activities would amount to $7,980,200, or 47.9 per cent. Of the total budget for field operations of $14,435,000, the budget for core activities would amount to $7,094,700, or 49.1 per cent, and the budget for programme support activities would amount to $7,340,300, or 50.9 per cent.

Table 2. Introduction of budget for core and programme support activities for headquarters and field operations by object of expenditure, biennium 1996-1997

(Thousands of United States dollars)

	Current classification			*New classification*		
	Approved budget for the biennium 1996-1997			*Approved budget for the biennium 1996-1997*		
Object of expenditure	*Budget of the Fund of UNDCP*	*Programme support cost budget*	*Total*	*Core activities*	*Programme support activities*	*Total*
Headquarters						
Posts	9 510.6	2 294.5	11 805.1	6 354.6	5 450.5	11 805.1
Other staff costs	159.7	--	159.7	83.7	76.0	159.7
Consultants and experts	635.1	--	635.1	155.1	480.0	635.1
Travel	1 011.0	--	1 011.0	667.9	343.1	1 011.0
Contractual services	118.2	--	118.2	63.6	54.6	118.2
General operating expenses	875.1	--	875.1	470.9	404.2	875.1
Supplies and materials	95.0	--	95.0	51.1	43.9	95.0
Equipment	216.8	--	216.8	116.5	100.3	216.8
Other expenditures	1 314.8	420.0	1 734.8	707.2	1 027.6	1 734.8
Total	13 936.3	2 714.5	16 650.8	8 670.6	7 980.2	16 650.8
Field operations						
Posts	9 889.0	616.1	10 505.1	5 121.6	5 383.5	10 505.1
Travel	802.9	--	802.9	410.4	392.5	802.9
General operating expenses	2 326.8	--	2 326.8	1 164.6	1 162.2	2 326.8
Supplies and materials	377.1	--	377.1	189.9	187.2	377.1
Furniture	8.0	--	8.0	3.9	4.1	8.0
Equipment	415.1	--	415.1	204.3	210.8	415.1
Total	13 818.9	616.1	14 435.0	7 094.7	7 340.3	14 435.0
Grand total	27 755.2	3 330.6	31 085.8	15 765.3	15 320.5	31 085.8

Table 3. Introduction of core and programme support activities for headquarters and field operations by staffing table, biennium 1996-1997

(Thousands of United States dollars)

	Current classification			*New classification*		
	Approved budget for the biennium 1996-1997			*Approved budget for the biennium 1996-1997*		
Post level	*Budget of the Fund of UNDCP*	*Programme support cost budget*	*Total*	*Core activities*	*Programme support activities*	*Total*
Headquarters						
Professional category and above						
D-2	2	--	2	2	--	2
D-1	5	--	5	4	1	5
P-5	7	--	7	3	4	7
P-4/3	9	7	16	7	9	16
P-2/1	5	1	6	3	3	6
Total	28	8	36	19	17	36
General Service category						
Principal level	2	--	2	2	--	2
Other levels	25	8	33	15	18	33
Total	27	8	35	17	18	35
Total	55	16	71	36	35	71
Field operations						
Professional category and above						
D-2	1	--	1	1	--	1
D-1	3	--	3	3	--	3
P-5	14	--	14	10	4	14
P-4/3	12	3	15	--	15	15
P-2/1	1	--	1	--	1	1
Total	31	3	34	14	20	34
Local category						
National programme officer	19	1	20	4	16	20
Local level	65	3	38	44	24	68
Total	84	4	88	48	40	88
Total	115	7	122	62	60	122
Grand total	170	23	193	98	95	193

14. The identification of the full programme support requirements would lead to an increase in programme support activities that would be fully offset by a corresponding decrease in core activities. As a result, the relative share of core activities and programme support activities would change but not their combined total. The new approach would also not change the resource distribution between headquarters and field operations. What would change is the budgetary classification at the level of headquarters and at the level of field operations.

15. As noted, the new budgeting approach outlined above would result in an increase of $11,989,900 in the budget for programme support activities, from $3,330,600 to $15,320,500, which would be fully offset by a corresponding decrease in the current Fund budget. Assuming no increase in programme support resources, amounting to an estimated $4,370,100, the increase in programme support activities would need to be funded from general-purpose funds amounting to $10,950,400. The need for such complementary funding would be fully offset by reduced requirements of general-purpose funding for the core activities by the same amount, with no increase in the combined total requirements for general-purpose resources. In addition to providing budgetary transparency as mentioned in paragraph 8 above, the new approach would also enhance funding transparency. The new budgetary approach would clearly indicate which share of the programme support activities would be funded from general-purpose resources (see recommendations 1 and 2 in paragraph 63 below).

B. Programme support resources

16. The United Nations programme support arrangement provides the framework according to which programme support proceeds are received by UNDCP and partner agencies. The detailed arrangement currently applied is described in a note by the Executive Director on the programme support cost arrangement (E/CN.7/1993/15, paras. 33-35). Table 4 shows the programme support changes according to that arrangement.

Table 4. Programme support arrangement, by execution category

	Programme support changes		
Execution category	*UNDCP*	*Partner agency*	*Total*
UNDCP execution	13%	--	13%
UNDCP execution with associated organizations	Share of 13%	Share of 13% for associated organizations	13%
Agency execution	--	Up to 13%	Up to 13%
National execution	--	Up to 3.5% for UNDP in selected cases	Up to 3.5%

17. The financial result of the current arrangement is illustrated in table 5 for the biennium 1996-1997. UNDCP total programme support proceeds are estimated to amount to $4,370,100, or 4.0 per cent, of the $110,000,000 estimated project delivery, of which $3,022,600 is earned under UNDCP execution and $1,347,500 is earned under UNDCP execution with associated organizations. The latter category essentially involves cooperation between UNDCP and the United Nations Office for Project Services and between UNDCP and the United Nations Industrial Development Organization (UNIDO). Programme support resources provided to partner agencies are estimated to amount to $6,657,900, or 6.1 per cent, of estimated project delivery. Programme support for UNDCP and partner organizations combined amounts to $11,028,000, or 10.0 per cent, of estimated project delivery.

Table 5. Options for generating programme support resources, biennium 1996-1997

(Thousands of United States dollars)

	Current programme support arrangement			*Option 1: sharing programme support between funding and executing agencies*			*Option 2: charging 13% for programme support for national execution*			*Options 1 and 2 combined*		
Execution modality	*General-purpose*	*Special-purpose*	*Total*	*General-purpose*	*Special-purpose*	*Total*	*General-purpose*	*Special-purpose*	*Total*	*General-purpose*	*Special-purpose*	*Total*
UNDCP programme support resources												
UNDCP execution	1 178.8	1 843.8	3 022.6	1 178.8	1 843.8	3 022.6	1 178.8	1 843.8	3 022.6	1 178.8	1 843.8	3 022.6
UNDCP execution with associated agency	129.4	1 218.1	1 347.5	129.4	1 218.1	1 347.5	129.4	1 218.1	1 347.5	129.4	1 218.1	1 347.5
Agency execution	--	--	--	136.5	513.5	650.0	--	--	--	136.5	513.5	650.0
National execution	--	--	--	--	--	--	72.0	2 150.0	2 622.0	472.0	2 150.0	2 622.0
Total	1 308.2	3 061.9	4 370.1	1 444.7	3 575.4	5 020.1	1 780.2	5 211.9	6 992.1	1 916.7	5 725.4	7 642.1
Partner-agency programme support resources												
UNDCP execution	--	--	--	--	--	--	--	--	--	--	--	--
UNDCP execution with associated agency	151.1	1 421.0	1 572.1	151.1	1 421.0	1 572.1	151.1	1 421.0	1 572.1	151.1	1 421.0	1 572.1
Agency execution	1 063.7	3 935.0	4 998.7	1 063.7	3 935.0	4 998.7	1 063.7	3 935.0	4 998.7	1 063.7	3 935.0	4 998.7
National execution	12.8	74.3	87.1	12.8	74.3	87.1	12.8	74.3	87.1	12.8	74.3	87.1
Total	1 227.6	5 430.3	6 657.9	1 227.6	5 430.3	6 657.9	1 227.6	5 430.3	6 657.9	1 227.6	5 430.3	6 657.9
Grand total	2 535.8	8 492.2	11 028.0	2 672.3	9 005.7	11 678.0	3 007.8	10 642.2	13 650.0	3 144.3	11 155.7	14 300.0

18. The UNDCP budget for programme support activities for the biennium 1996-1997 would amount to $15,320,500, corresponding to 13.9 per cent of estimated project delivery. Since estimated UNDCP programme support resources for the biennium 1996-1997 only amount to $4,370,100, additional and complementary general-purpose resources of $10,950,400 are required to fund the budget for programme support activities. In many United Nations organizations, general funds are made available through a system of assessed contributions. Support from general funds therefore is the equivalent of support from the community of Member States for project activities. That only partially applies to UNDCP. The major share of voluntary contributions is made available by a small group of Member States. Most donors provide general-purpose contributions, which are primarily for core and programme support activities, and as special-purpose contributions, which are exclusively used for project activities. Where the contributions of major donors differ is in the size of the share of general-purpose and special-purpose donations. For example, for the biennium 1994-1995, one major donor provided 79.1 per cent of its contribution as general-purpose funds, whereas another limited its general-purpose share to only 3.7 per cent of the total contribution. Implicitly, a general-purpose contribution mainly provided by one group of donors needs to be utilized for supporting project activities funded from special-purpose contributions provided by a somewhat different group of countries.

19. During the thirty-ninth session of the Commission, the ad hoc open-ended working group on administrative and budgetary matters expressed support for elaborating new mechanisms to increase programme support resources. Modification of the current programme support arrangement would need to respect the ceiling determined by the United Nations programme support arrangement of 13 per cent of the value of project delivery. As a first option (option 1), programme support proceeds for UNDCP could be increased by applying the system used for UNDCP execution with associated organizations to agency execution. In other words, a standard amount of 13 per cent programme support would be charged for agency execution. After having accounted for the programme support share of the executing agency, the remaining balance would be retained by UNDCP. As illustrated in table 5, the proceeds for UNDCP from the modified programme support arrangement would increase in the biennium 1996-1997 by $650,000 to $5,020,100, or 4.6 per cent of estimated project delivery, with no implications for partner agencies. Most of these additional proceeds, namely $513,500, would be generated from projects funded by special-purpose contributions with the remaining balance of $136,500 generated from projects funded by general-purpose contributions. Those projects funded by special-purpose contributions would therefore contribute considerably more to the maintenance of the programme support activities. Moreover, total programme support charges, including those of UNDCP and partner agencies, would increase to $11,678,000, or 10.6 per cent, of estimated project delivery, well below the maximum rate of 13.0 per cent. It is recommended to approve this option (see recommendation 3 in paragraph 63 below).

20. A second option involving the modification of the current arrangement would be the application of programme support charges to national execution (option 2). Assuming that UNDCP would be in a position to apply a programme support rate of 13 per cent for national execution, the proceeds from the programme support arrangement would increase in the biennium 1996-1997 by $2,622,000. As in option 1, the modification would increase in particular the programme support proceeds from projects funded by special-purpose contributions, $2,150,000 being generated from special-purpose funds and $472,000 from general-purpose funds. As a result of combining options 1 and 2, programme support resources for UNDCP would increase by $3,272,000 to $7,642,100, or 6.9 per cent of estimated project delivery. The combined programme support charges for UNDCP and partner agencies would amount to $14,300,000, or approximately 13.0 per cent of estimated project delivery, the ceiling determined by the United Nations programme support arrangement. It is recommended that the Commission should consider the approval of option 2: the application of programme support charges for national execution (see recommendation 4 in paragraph 63 below).

21. The introduction of the proposed modifications to the programme support arrangement would increase programme support resources and reduce the need to utilize general-purpose funds for programme support

activities. Table 6 illustrates the implications of the two options for modifying the programme support arrangement for the funding of core and programme support activities, using again the biennium 1996-1997 as a model. Although fewer general-purpose resources would be required, table 6 shows that, even under the second option, programme support resources would remain insufficient to fund the total programme support requirements. Some limitations would remain, and full coverage of programme support requirements could not be achieved through the programme support arrangement with a maximum rate of 13 per cent for support charges.

II. BUDGET METHODOLOGY

22. In its report on the revised programme budget and performance report for the biennium 1994-1995 and proposed budget for the biennium 1996-1997 (E/CN.7/1995/22), ACABQ made a number of general and critical comments. At the reconvened thirty-eighth session of the Commission,[1] the Chairman of the working group on the draft resolution entitled "Final budget and performance report for the biennium 1994-1995 and initial budget for the biennium 1996-1997 for the Fund of the United Nations International Drug Control Programme", recommended that the Secretariat should continue to seek clarification from ACABQ on its observation on the budget methodology. The budgetary planning and reporting for the Fund of UNDCP in the biennium 1994-1995 were also the subject of a review by the Board of Auditors.

23. In its report (E/CN.7/1995/22, para. 20), ACABQ, commenting on the budget methodology, stated that in the report of the Executive Director (E/CN.7/1995/22, paras. 163-165) the presentation of budget estimates for the biennium 1996-1997 was misleading and should be discontinued. The methodology used for the recosting of the budget was considered faulty, leading to large overestimates. ACABQ also indicated that a less mechanical approach should have been used for arriving at the revised estimates and that expenditure should have been examined more in terms of actual requirements and past performance. ACABQ recommended that the budget estimates for the biennium 1996-1997 should be considered on the basis of expenditure estimates. ACABQ also recalled its previous comments with regard to the revised estimates for the biennium 1994-1995 and the outline for the biennium 1996-1997. In particular, ACABQ indicated that in arriving at the revised estimates for the biennium 1994-1995, it did not appear that the performance experience had been taken into consideration, thus limiting the use of the document. Finally, ACABQ has repeatedly called for a review of the budgetary terminology of UNDCP.

24. In light of the critical comments of ACABQ, UNDCP sought from it in late 1995 additional clarification and guidance on the issue of budget methodology. In addition, the request by the Commission for the submission of further clarification at its thirty-ninth session was brought to the attention of ACABQ. In particular, ACABQ was asked to comment on the issues of: recosting methodology; comparison of budget proposals between two bienniums; relationship between recosting of budget estimates and expenditure estimates; comprehensive budget presentation including headquarters, field operations and project activities; and application of United Nations budget methodology by UNDCP. Consultations were held in January and February 1996 between UNDCP, the secretariat of ACABQ and the financial authorities of the United Nations on the current budget methodology used by UNDCP.

A. New budget concept

25. The criticism of ACABQ of specific issues provided encouragement to reconsider the current budget concepts in order to recommend improvements in a comprehensive manner. That was done with the understanding that the improvements already implemented and acknowledged by ACABQ and the Board of Auditors would not be discontinued.

Table 6. Funding of core and programme support activities based on different options for generating programme support resources, biennium 1996-1997

(Thousands of United States dollars)

Options for generating programme support resources	*Core activities*	*Programme support activities*		
	General-purpose funds	*Programme-support funds*	*General-purpose funds*	*Total*
Current programme support arrangement	15 765.3	4 370.1	10 950.4	15 320.5
Option 1: sharing programme support between funding and executing agencies	15 765.3	5 020.1	10 300.4	15 320.5
Option 2: charging 13% for programme support for national execution	15 765.3	6 992.1	8 328.4	15 320.5
Options 1 and 2 combined	15 765.3	7 642.1	7 678.4	15 320.5

26. In readjusting the budget concept, use has been made of the experience gained in other United Nations organizations, while taking into account the need to present an integrated budget for the Fund of UNDCP together with the UNDCP regular budget approved by the General Assembly.

27. The current concept distinguishes between the following components of the biennial budget: the Fund budget, including headquarters, field operations and project activities; and the programme support cost budget, including headquarters and field operations. Essentially, the programme support cost budget covers technical and administrative support for project execution within available programme support funds. All remaining requirements are included in the Fund budget.

28. The new budget concepts utilizes the budget categories introduced in section I under the programme support arrangement and differentiates between the following: core activities, including headquarters and field operations; programme support activities, including headquarters and field operations; and project activities. The budget for core activities would cover the substantive activities associated with the programme of work and related activities, including executive direction and management and administration. Core activities are funded from general-purpose resources. The budget for programme support activities would cover all technical and administrative activities that are incurred in project implementation. Programme support activities are financed from programme support funds and, as required, from general-purpose resources. Project activities cover separately identified undertakings relating to international drug control that directly assist recipient organizations. Such activities are implemented by executing agencies and supported from general-purpose and trust fund resources.

29. The scope of the budget to be approved by the Commission should be clarified on the basis of the new budget classification. Currently, approval is requested for all activities supported by the Fund of UNDCP and programme support cost. For reasons outlined below, it appears appropriate to limit the approval by the Commission to the biennial budget, including core and programme support activities. Project activities would be implemented by the Executive Director in accordance with the following:

(a) The policy of the Fund of UNDCP, to be approved by the Commission;

(b) The detailed presentation of planned and anticipated project activities that would accompany the biennial budget, as is currently the case, including projects funded from trust fund resources.

30. Fundamental to the new budget concept is the understanding that project approval by the Executive Director would comply with the policy of the Fund of UNDCP as specifically approved by the Commission. Such a policy would outline the terms of reference and clarify the criteria according to which resources are allocated in response to mandates received from the Commission. A proposal covering a policy of the Fund of UNDCP will be submitted to the Commission at its reconvened fortieth session in December 1996. The detailed presentation of project activities, referred to in paragraph 29 (b) above, would continue to include budget estimates, recosted together with the biennial budget. However, the Commission would not be requested to approve project budgets. Such information not only is required in order to provide a comprehensive and integrated picture of all activities supported by the Fund of UNDCP, but also provides the major rationale for the biennial budget proposals for headquarters and field operations, in particular for programme support activities. A comparison between the current and proposed budget concepts is shown in table 7, using the budget for the biennium 1996-1997 as a model.

Table 7. Current and proposed budget concepts, biennium 1996-1997
(Thousands of United States dollars)

Current budget concept	*Amount*	*Proposed budget concept*	*Amount*
Fund of UNDCP		I. Biennial budget	
Headquarters	13 936.3	Core	
Field operations	13 818.9	Headquarters	8 670.6
Project activities	121 362.7	Field operations	7 094.7
Total	149 117.9	Total	15 765.3
Programme support cost		Programme support	
Headquarters	2 714.5	Headquarters	7 980.2
Field operations	616.1	Field operations	7 340.3
Total	3 330.6	Total	15 320.5
Total budget		Core and programme support	
Headquarters	16 650.8	Headquarters	16 650.8
Field operations	14 435.0	Field operations	14 435.0
Project activities	121 362.7	Total	31 085.8
		II. Project activities	121 362.7
Grand total	152 448.5	Grand total	152 448.5

31. The proposal to limit the approval of the Commission to the biennial budget, including core and programme support activities, is considered consistent with existing legislation and indications received by UNDCP. First, the General Assembly, in its resolution 46/185 C, section XVI, authorized the Commission to approve "the budget of the programme of the Fund and the administrative and programme support costs budget". This is considered essentially comparable to the proposed approach, core and programme support activities being equivalent to the scope of approval described in the General Assembly resolution. Secondly, project activities in other comparable organizations are not approved by budgetary committees. For example, in UNDP, of a total resource volume of approximately $3.6 billion in the biennium 1996-1997, budget approval is provided for approximately $1 billion only, covering activities similar to those incorporated in the biennial budget of UNDCP. Thirdly, the Commission itself already approved a somewhat similar approach when it adopted its resolution 15 (XXXVIII). In that resolution, the Commission "approved" for headquarters and field operations the initial budget estimates for the biennium 1996-1997, whereas it only "took note with approval" of the initial budget estimates for project activities for the biennium 1996-1997. Finally, the need to separate project activities from budget approval becomes apparent for practical reasons. As noted in the report of the Executive Director (E/CN.7/1995/21, para. 270) of the total project volume of $121,367,700, only $38,674,500, or 31.9 per cent, had been approved at the time of budget preparation. To prepare realistic budget estimates for the remaining 68.1 per cent appears difficult in the light of the information available. Presentation of details at the beginning of the biennium creates an impression of precision that in reality does not exist. Most projects are implemented not by UNDCP but by executing agencies and government authorities. Budgetary details on projects only become known during the biennium when programming takes place with the partner organization. Whereas additional information should be provided which enhances the transparency of a comprehensive presentation, details at an unattainable level of precision should no longer be presented. Information on project execution at UNDCP headquarters and field offices will be added to the presentation since it can be projected and is of particular interest to Member States. Estimates on project activities by object of expenditure should be confined to past data. The current

attempt to estimate future requirements in accordance with these categories should be discontinued, since such details are unknown at the time of budget preparation (see recommendations 5 and 6 in paragraph 64 below).

B. Budget calculations

32. Consultations with ACABQ appear to indicate that it recommends the following two major modifications of the methodology for budget calculations: a change in the calculation of revised budgets; and a change in the comparison between the forthcoming and the preceding budget.

33. In accordance with the United Nations budget methodology, the initial biennial budget is revised annually during the biennium. Expenditure is likely to differ from the approved budget for two main reasons: costing adjustments, for example, changes in exchange rates, inflation and standard salary cost; and volume adjustments including programmatic changes and associated budgetary implications as well as budgetary changes resulting from efficiency measures. Currently, the biennial budget is revised annually for costing adjustments only. Recosting is carried out to adjust the approved budget in such a way as to provide for the implementation of the initially approved programme volume, regardless of the fluctuation in costing parameters. The second and last revision of the budget estimates constitute the final budget for the biennium. In addition, expenditure estimates are established which anticipate actual requirements and constitute the request of the Executive Director to the Commission for appropriations. Implementation rates are calculated by comparing the final biennial budget with the expenditure estimates. Since the final budget does not include modifications for volume adjustments, the calculation implies a comparison between initially approved programme activities and actual programme delivery.

34. ACABQ has suggested that annual budget revisions should take into account volume adjustments in addition to the current costing adjustments. This approach would provide for more realistic budget estimates. However, by introducing volume adjustments in the annual revision exercise, the biennial budget process would become a de facto full-fledged annual budget exercise. This is not foreseen in the budget system of the United Nations. The interpretation of implementation rates will also change. Annual volume adjustments should align closely the budget allocations with estimated expenditure. A comparison between the revised budget and expenditure will therefore not indicate whether the approved programme has been implemented. Rather, the comparison will indicate whether the volume adjustment approved prior to the end of the budget period correctly anticipated actual expenditure.

35. In spite of the limitations outlined above, it is proposed to implement the recommendation of ACABQ to calculate revised budget estimates by taking into account volume adjustments in addition to costing adjustments currently applied. This would be done on the understanding that the concept of a biennial budget as against an annual budget is to be safeguarded. As a result, revised budgets would not include details on programme activities already approved by the Commission for the biennium. Such details would be provided only if they constituted a major departure from the approved programme of work. In addition, volume adjustments would reflect only major departure from the approved programme of work, including their programmatic and budgetary implications as well as major budgetary changes resulting from efficiency measures. The change in the methodology for budget calculation is illustrated in table 8, using the bienniums 1994-1995 and 1996-1997 as models. Whereas the starting-point (revised budget for the biennium 1994-1995) and the end-point (initial budget for the biennium 1996-1997) are identical, the final budget for the biennium 1994-1995 differs, with volume adjustments having been taken into account under the proposed methodology (see recommendation 7 in paragraph 64 below).

36. The implementation of a modified budget revision methodology would meet a second concern of ACABQ. In the presentation, the forthcoming budget is compared with the preceding budget. The comparison provides details on growth rates for the forthcoming budget. Currently, the forthcoming budget is compared with the preceding budget, which has been revised for costing assumptions only and not for volume adjustments. Since no adjustments for expenditure experience enter into the growth calculation, it

is possible to compare the initial budget assumptions of the preceding biennium with the forthcoming period. This should provide greater budget transparency, illustrating the realism of budget assumptions.

37. Rather than the current approach, it appears that ACABQ recommends that a comparison should be made between the forthcoming budget and the most recent expenditure experience. That would provide for a comparison between up-to-date requirements and the forthcoming biennium. The concern of ACABQ would already be met through the introduction of volume adjustments in the revised biennial budget as outlined above. As a result, the final proposed budget would incorporate the most recent expenditure estimates. When comparing the forthcoming budget with the final budget of the preceding period, the new budget estimates would de facto be compared with the final expenditure estimates. Table 8 illustrates the change in budget methodology, using the bienniums 1994-1995 and 1996-1997 as models. The introduction of the new methodology changes in particular the amount and rate of growth of the budget for the biennium 1996-1997. Since the base - the final budget for the biennium 1994-1995 - has changed through the introduction of volume adjustments, the subsequent calculations differ accordingly. Based on the implementation of recommendation 7, it is proposed to adjust the methodology for budget adjustments in accordance with the recommendations of ACABQ (see recommendation 8 in para. 64 below).

C. Performance report on the budget and programme

38. As noted in paragraph 22 above, the budgetary planning and reporting for the Fund of UNDCP in the biennium 1994-1995 were also the subject of a review by the Board of Auditors. The Board found that budget proposals were generally based on sound economic and financial principles and was pleased to note a number of improvements. As a significant improvement, the Board noted that budget estimates were being prepared on the basis of costed work plans, which provided for a detailed link between the activities proposed and the resources required. The clear identification of outputs was seen not only to lead to a realistic budget but also to provide a useful tool for monitoring programme implementation throughout the biennium. Moreover, the Board noted that the budget of UNDCP clearly showed the relationship between budget proposals and mandates for headquarters and field operations. The Board welcomed the efforts made by UNDCP to illustrate in its budget proposals the relationship between the budget and mandates for project activities. As a suggestion for improvement, the Board recommended that UNDCP should consider new ways of presenting a performance report that indicates actual programme delivery for the biennium.

39. For the Fund of UNDCP, two performance reports are submitted to the Commission. First, a biennial performance report covering budget and programme delivery is submitted, together with the initial budget for the coming biennium. The report is prepared during the fourth quarter of the biennium and submitted to the reconvened session of the Commission, which meets in the last December of the biennium. Secondly, a biennial report covering budget performance is submitted as part of the audited financial statements for the Fund of UNDCP. The report is prepared during the first six months following the end of the biennium, submitted to Member States during the second half of the year and considered by the Commission during the second year following the end of the biennium.

40. The submission of a report covering budget and programme performance together with the proposed initial budget for the future biennium is a major improvement in the budget process. The performance assessments are important for Member States examining the appropriateness of budget estimates for the future period. As a result of the joint submission, the biennial performance report only allows for the presentation of 18 months of actual programme delivery and not for the full biennium, the remaining six months being covered by performance estimates. The recommendation of the Board of Auditors is aimed at closing this gap and ensuring that total actual programme delivery is reported to the Commission.

Table 8. Current and proposed methodology for budget calculation, bienniums 1994-1995 and 1996-1997
(Thousands of United States dollars)

	Fund of UNDCP and programme support cost										
Segment	*Revised budget for the biennium 1994-1995*	*Recosting*	*Total after recosting*	*Volume adjustment* *Amount*	*Volume adjustment* *Rate (%)*	*Final budget for the biennium 1996-1997*	*Resource growth* *Amount*	*Resource growth* *Rate (%)*	*Total before recosting*	*Recosting*	*Initial budget for the biennium 1996-1997*
Current methodology											
Headquarters	15 146.6	(82.9)	-	-	-	15 063.7	300.0	1.9	15 363.7	1 287.1	16 650.8
Field	13 790.3	1 231.2	-	-	-	15 021.5	(1 730.2)	(11.5)	13 291.3	1 143.7	14 435.0
Project	161 704.7	(2 866.8)	-	-	-	158 837.9	(47 319.1)	(29.7)	111 518.8	9 843.9	121 362.7
Total	190 641.6	(1 718.5)	-	-	-	188 923.1	(48 749.3)	(25.8)	140 173.8	12 274.7	152 448.5
Proposed methodology											
Headquarters	15 146.6	(82.9)	15 063.7	32.6	0.2	15 096.3	267.4	1.7	15 363.7	1 287.1	16 650.8
Field	13 790.3	1 231.2	15 021.5	87.3	0.5	15 108.8	(1 814.5)	(12.0)	13 291.3	1 143.7	14 435.0
Project	161 704.7	(2 866.8)	158 837.9	(40 330.7)	(25.3)	118 507.2	(6 988.4)	(5.9)	111 518.8	9 843.9	121 362.7
Total	190 641.6	(1 718.5)	188 923.1	(40 210.8)	(21.2)	148 712.3	(8 538.5)	(5.7)	140 173.8	12 274.7	152 448.5

41. The first option would be to present the performance report on the programme after the end of the biennium to capture actual delivery and to discontinue the presentation of a performance report on the programme in the context of the budget submission. A major shortcoming would be the lack of programmatic performance assessments when approving the future budget. Moreover, the performance report on full programme delivery could only be submitted to the Commission rather late, which somewhat limits its usefulness. The report would be ready approximately six months following the end of the biennium for submission to the regular session of the Commission during the second year following the end of the biennium. A second option would include the current practice of submitting a biennial performance report on the programme to the reconvened session of the Commission based on 18 months of actual programme delivery and six-month estimates, jointly with the initial budget. This would be followed by the submission of a second programme performance report after the end of the biennium. A major shortcoming in this approach would be the duplication of effort and documentation: three quarters of the second performance report would have already been presented in the first report. In addition, as in the case of the first option, the second performance report would be submitted rather late.

42. A third option is seen to provide a more appropriate solution. It includes the continuation of the current submission of a biennial performance report on the programme to the reconvened session of the Commission which includes estimates of the remaining six months of the biennium. That would be followed by the submission of a performance report on actual programme delivery for the remaining six months as part of the report of the Executive Director which is provided in the audited financial statements. Without recalling the performance report on the programme already submitted in the budget process, an additional quantified summary on overall programme delivery would be included as well as explanations of changes compared with the first report. As is currently the case, the audited report would be available to Member States in the second half of the first year following the end of the biennium for consideration by the Commission during the following regular session. That approach would preserve the benefit of providing performance assessments in the budget process while avoiding duplication of reporting and enhancing the timely submission of performance information on the programme. Moreover, the submission of the concluding performance report on the programme together with the audited financial information would constitute a comprehensive and authoritative biennial performance report on budget and programme (see recommendation 9 and 10 in paragraph 64 below).

III. FINANCIAL RULES

43. The Commission, in its resolution 15 (XXXVIII), requested the Secretary-General to take note of the recommendations of ACABQ contained in its report (E/CN.7/1995/22), to review, as necessary, the financial functioning of UNDCP with regard to the need to promulgate separate financial rules, and to report on that matter to the Commission at its thirty-ninth session. ACABQ considered the issue given the magnitude of the extrabudgetary resources of UNDCP and the distinctive features of the programme of UNDCP. When reviewing current experience, particular attention was to be given to the requirements for an operational reserve.

A. Initial draft financial rules for the Fund of UNDCP

44. In 1991 the Secretary-General considered the need to promulgate separate financial rules for UNDCP and, where necessary, exceptions to the Financial Regulations of the United Nations (A/46/480, para. 25). The Secretary-General, in his report on administrative and financial arrangements regarding UNDCP (A/C.5/46/23, para. 8) indicated his intention to promulgate separate financial rules applicable to the Fund of UNDCP, with the draft rules being annexed to that document. The draft rules reflected a number of proposals to take into account the distinctive features of the Fund as compared to the regular budget, including: the budget approval process; a system of continuous programming based on annual funding; a

distinction between commitment and obligation; the establishment of an operating reserve; and decentralization in administrative matters in the interest of efficient operations.

45. The Secretary-General proposed that the Financial Regulations of the United Nations should apply, with two exceptions, to the financial administration of the Fund. The first exception concerns financial regulation 6.7, which, together with rule 106.3, requires that all trust funds be administered in accordance with the Financial Regulations and Financial Rules of the United Nations, unless otherwise provided by the General Assembly. It was proposed in this respect that trust funds within the Fund should be administered in accordance with the separate financial rules applicable to the Fund as a whole. The second exception related to financial regulation 11.1 and 11.4, which concerned the maintenance and submission of the accounts. The General Assembly, in its resolution 46/185/C, section XVI, paragraph 8, entrusted that responsibility to the Executive Director of UNDCP, whereas the Financial Regulations, as they stand, would require that the accounts be maintained by the Secretary-General.

46. The Secretary-General intended to promulgate the financial rules for the Fund of UNDCP as annexed to his report (A/C.5/46/23) subject to the approval by the General Assembly of the proposals outlined above. When reviewing that report, ACABQ noted that a number of issues relating to the functioning of UNDCP still remained unclear (A/46/7/Add.9, para. 4) and required further consideration by the General Assembly, in particular the budget approval process for the Fund of UNDCP. With regard to the draft financial rules, the Committee noted (A/46/7/Add.9, para. 14) that the Secretary-General should review the rules in the light of such action on the administrative and financial arrangement for UNDCP as the General Assembly might take at the forty-sixth session.

47. The General Assembly in its resolution 46/185 C, section XVI, noted the intention of the Secretary-General to promulgate financial rules for the Fund, in accordance with the Financial Regulations of the United Nations, it being understood that the references in the said financial rules to the role and functions of the Commission should be consistent with the role of the Commission outlined in the same section of that resolution. In that section, the General Assembly authorized the Commission to approve, on the basis of the proposals of the Executive Director, both the budget of the programme of the Fund and the administrative and programme support costs budget, other than expenditure borne by the regular budget of the United Nations.

48. Following the adoption of General Assembly resolution 46/185 C, and in the light of the comments of ACABQ (A/46/7/Add.9), the Secretary-General concluded that, for the time being, the Programme should be able to continue to operate within the framework of the Financial Rules of the United Nations. Should experience show that the functioning of UNDCP required separate financial rules, the Secretary-General would be prepared to review the situation.

B. Review of the financial functioning of UNDCP

49. The financial functioning of UNDCP with regard to the need to promulgate separate financial rules was reviewed by the Secretary-General early in 1996 following the adoption of Commission resolution 15 (XXXVIII). An interim report on the review (E/CN.7/1996/15) was provided to the Commission. During the thirty-ninth session of the Commission, the ad hoc open-ended working group on administrative and budgetary matters acknowledged problems in the management of the Fund of UNDCP in the absence of specific financial rules, including the establishment of reserves to ensure the proper management of the Programme, the establishment of trust funds for earmarked contributions and the implementation of an appropriate programme support cost arrangement.

50. Before outlining the results of the review of the financial functioning of UNDCP, some of the distinctive features of the operation of UNDCP should be highlighted. UNDCP comprises two complementary parts: activities supported by the regular budget and approved by the General Assembly; and the Fund of UNDCP,

approved by the Commission. The Fund, established in 1991 by the General Assembly, is supported from extrabudgetary resources under the direct responsibility of the Executive Director. The Executive Director maintains the accounts of the Fund and submits them together with related financial statements to the Board of Auditors, the Commission and the General Assembly.

51. UNDCP expenditure for the biennium 1994-1995 totalled $153,155,280, of which $138,354,500, or 90.3 per cent, was accounted for by the Fund of UNDCP and $14,800,780, or 9.7 per cent, was accounted for by the regular budget. The total income of the Fund in the biennium 1994-1995 amounted to $131,406,972, resulting in a shortfall of income over expenditure of $6,947,528. During the biennium 1994-1995, 59 States and the European Commission contributed to the Fund, 16 States and the European Commission providing 96.9 per cent of the total. Special-purpose contributions represented 71.1 per cent of total extrabudgetary income and general-purpose contributions accounted for 28.9 per cent.

52. The regular budget of UNDCP mainly finances treaty implementation and legal affairs at UNDCP headquarters. Of the resources of the Fund, 77.9 per cent were deployed in the biennium 1994-1995 for project activities mainly in developing countries, helping them to comply with their treaty obligations and cope with illicit drug production, trafficking and abuse. The remaining 22.1 per cent of the resources of the Fund covered the costs of the field office network in 20 countries and a share of headquarters expenses. The largest share of UNDCP spending is in Latin America and the Caribbean, followed by Asia and the Pacific, Europe and the Middle East, and Africa. The project activities are implemented by UNDCP within a network of organizations, including government organizations, United Nations Office for Project Services, UNDP, other United Nations entities and non-governmental organizations.

53. The review of the financial functioning of UNDCP confirmed that the initial rationale for approving separate financial rules for the Fund of UNDCP, as indicated in paragraphs 44 and 45 above, remains valid. In general, given the size of the Fund, the complexity of its mandate and the geographical spread of its organization and operations, separate financial rules are seen to enhance efficiency in the management of the Fund of UNDCP. In particular, three main issues have been identified for which the lack of separate financial rules creates particular difficulties: trust funds, reserves and the support cost arrangement.

54. At present, the establishment and administration of trust funds are governed by United Nations financial regulation 6.7 and financial rule 106.3, as amplified in Secretary-General's bulletin ST/SGB/188 of 1 March 1982 and administrative instructions ST/AI/284, ST/AI/285 and ST/AI/286 of 1 March 1982. The prescribed applicable procedure requires the extensive involvement of the Department of Administration and Management of the Secretariat despite the delegation of authority provided by the General Assembly to the Executive Director. In order to facilitate operation and to avoid a time-consuming administrative process, UNDCP has refrained from establishing separate trust funds and has decided instead to administer earmarked contributions through the mechanism of "sub-accounts" of the existing Fund account. Although that arrangement was accepted by the financial authorities at Headquarters, ACABQ has repeatedly questioned this practice, which appears not to conform with the Financial Regulations and Financial Rules of the United Nations. The draft financial rules (A/C.5/46/23, annex) of which the General Assembly took note in its resolution 46/185 C, section XVI, outline a new arrangement for trust funds in rule 5.4. The approval of this arrangement would facilitate the operation of the Fund and provide the necessary flexibility for programming and tracking various multi-year trust fund projects. Rule 5.4 of the draft financial rules has been amended and is included as rule 6.5 in the revised draft financial rules as shown in annex I.

55. In the absence of separate financial rules for the Fund of UNDCP, it was decided to establish operating reserves for the Fund in accordance with administrative instruction ST/AI/284 on general trust funds and administrative instruction ST/AI/286 on programme support accounts. Accordingly, an operating reserve of 15 per cent of annual expenditure, adjusted for programme support costs, and a reserve for programme support of 20 per cent of annual programme support income are maintained for UNDCP to protect against unforeseen shortfalls and to meet the final expenditure, including liquidating liabilities. This amounted as

of 31 December 1995 to a reserve of $3,983,800 under general-purpose funds and $6,040,500 under special-purpose funds.

56. The arrangement was not considered satisfactory by ACABQ and appears not to be in line with actual reserve requirements for an operation such as the Fund of UNDCP. The draft financial rules (A/C.5/46/23, annex) detailed the reserve requirements in rule 8.2 and rule 8.3. In particular, it was foreseen that the Commission would determine the level of the reserve on the recommendation of the Executive Director. It is acknowledged that the Fund of UNDCP requires an operating reserve to ensure the financial viability and integrity of the Fund and to cover: downward fluctuations or shortfalls in resources; uneven cash flows; increases in actual costs as compared with planning estimates or fluctuations in delivery; and contingencies such as final expenditure (including liquidating liabilities) and unforeseen needs which may arise. The establishment of such a reserve should be provided for in the financial rules of the Fund. Calculations according to the criteria identified and a comparison with the practice in other United Nations organizations suggest that an operating reserve of approximately $12 million should be established and supported from general-purpose and programme support funds.

57. Finally, the lack of separate financial rules for the Fund of UNDCP appears to prohibit the introduction of an appropriate programme support arrangement. Currently, UNDCP has established a programme support cost budget based on available programme support income in accordance with administrative instruction ST/AI/286 on programme support accounts. This instruction appears to be appropriate for the administration of small trust funds and not necessarily operations such as the Fund of UNDCP as acknowledged by ACABQ and the ad hoc open-ended working group on administrative and budgetary matters during the thirty-ninth session of the Commission. Instead it has been suggested that a programme support arrangement that captures all programme support requirements and generates sufficient programme support resources should be developed for the Fund within the policy framework of the United Nations. Such an arrangement has been proposed in section I of the present report. The introduction of such an arrangement should be foreseen in the financial rules of the Fund of UNDCP.

58. In addition to the three main areas outlined above, financial rules for the Fund of UNDCP are required: to describe the budget approval process; to specify the delegation of authority from the General Assembly to the Executive Director with regard to the maintenance and submission of accounts; to define the separate financial periods for biennial budget and project activities; to outline the structure of accounts for the Fund; to describe arrangements that govern the custody and investment of funds; to define internal control mechanisms; to link financial rules with the system of amplifying administrative instructions to be issued by the Executive Director; to define the arrangement for executing agencies of UNDCP; and to introduce key definitions such as expenditure, commitment, allocation and appropriation (see recommendation 11 in paragraph 65 below).

C. Revised draft financial rules for the Fund of UNDCP and initial proposals

59. The review of the financial functioning of UNDCP has confirmed the need to promulgate separate financial rules for the Fund of UNDCP, based on the rationale advanced during initial proposals in 1991 and recent experience. The review has also brought out the need to revise in accordance with recent experience the draft financial rules (A/C.5/46/23, annex) of which the General Assembly took note in its resolution 46/185 C, section XVI, paragraph 7. Moreover, a comparison was conducted between the UNDCP model and the experience in other United Nations entities, including in particular the United Nations Environment Programme, the United Nations Children's Fund, UNDP and the United Nations Population Fund. The revisions are reflected in the draft financial rules for the Fund of UNDCP contained in annex I to the present report. Revisions have been introduced taking into account as far as possible the structure and content of the initial draft. The changes include the following:

(a) A new article has been introduced to provide definitions of the main entities and terms used in the draft financial rules (new article II);

(b) The separate accounts within the Fund account have been redefined to reflect the necessary distinction between the general fund and trust funds and the introduction of a programme support arrangement. The reference to reserves is deleted as their treatment is more appropriately dealt with under article IX, consistent with the UNDP model (new rule 6.2 amending old rule 5.2);

(c) The introduction of a programme support arrangement is acknowledged (new rule 6.4);

(d) The establishment of an operational reserve is described, replacing the previous proposals for a financial reserve and a programme reserve (new rule 9.2). Experience in the programming of UNDCP project activities suggests that resources should be committed or planned to be committed at any stage of the planning process in order to ensure maximum deployment of resources. Unforeseen needs, such as unanticipated projects or phases of projects are accommodated by reprogramming planned activities. Therefore, no separate programme reserve should be established;

(e) The draft rules envisage the preparation of an outline not previously foreseen for the Fund in accordance with Commission resolution 13 (XXXVI) (new rules 10.1 and 10.2). In addition, a new budget concept has been introduced, taking into account recommendations of ACABQ and the Commission (rules 10.2, 11.1 and 11.2). The biennial budget distinguishes between core and programme support activities and resources are appropriated by the Commission. The budget proposals are accompanied and supported by detailed presentation of planned and anticipated project activities to which the Executive Director may allocate funds within the policy guidance given by the Commission. The budget concept is discussed in more detail in sections I and II of the present report.

60. In addition to the main changes outlined above, a number of other technical revisions have been introduced as indicated in annex II, which compares the revised draft financial rules with the initial draft financial rules (see recommendation 12 in paragraph 65 below).

D. Promulgation of separate financial rules for the Fund of UNDCP

61. The review of the financial functioning of UNDCP has confirmed the need to promulgate separate financial rules for the Fund of UNDCP. The draft financial rules outlined in annex I reflect the rules already taken note of by the General Assembly in its resolution 46/185 C, section XVI, paragraph 7. The revisions do not involve exceptions to the application of the Financial Regulations of the United Nations other than those already acknowledged by the General Assembly. Subject to the comments by the Commission and ACABQ, the Secretary-General therefore intends to promulgate, pursuant to the Financial Regulations of the United Nations as amended, separate financial rules applicable to the Fund as shown in annex I of the present report (see recommendation 13 in paragraph 65 below).

IV. CONCLUSION

62. In response to requests by the Commission contained in its resolution 15 (XXXVIII) and taking into account related matters, a number of detailed recommendations have been advanced that cover the budget methodology, the programme support cost arrangement and the draft financial rules for the Fund of UNDCP. The recommendations are interlinked. For example, specific proposals on the budget concept are reflected in the draft financial rules. Some of the recommendations will already be reflected in the proposed revised budget for the biennium 1996-1997 and the proposed outline for the biennium 1998-1999, submitted to the Commission at its fortieth session. Other recommendations, in particular the new programme support arrangement, could be reflected, if approved, in the initial budget for the biennium 1998-1999. Moreover, should the Commission at its fortieth session support the draft financial rules for the Fund of UNDCP, the Secretary-General would be in a position to promulgate those rules in 1997. In order to provide a comprehensive overview, all the recommendations are presented below.

A. Programme support arrangement

63. The Commission may wish to approve the following recommendations on the programme support arrangement:

Recommendation 1. Programme support activities should be presented on the basis of actual programme support requirements and not on the basis of available programme support resources.

Recommendation 2. Programme support activities should be funded from programme support resources and, as required, general-purpose funds.

Recommendation 3. A standard programme support charge of 13 per cent should be applied for agency execution, shared, as appropriate, between funding agency and executing agency.

Recommendation 4. Programme support charges should be applied for national execution.

B. Budget methodology

64. The Commission may wish to approve the following recommendation on budget methodology:

Recommendation 5. The biennial budget for the Fund of UNDCP should distinguish between core activities and programme support activities.

Recommendation 6. Project activities should not be part of the biennial budget, but supporting information on project activities should be provided as part of the budget submission.

Recommendation 7. The revised biennial budgets should be calculated by taking into account costing adjustments and volume adjustments.

Recommendation 8. In the comparison between the forthcoming budget and the preceding budget, the latter should include volume adjustments in accordance with estimated expenditure.

Recommendation 9. The initial biennial budget should continue to be submitted together with a programme performance report for the preceding period.

Recommendation 10. The programme performance reporting should be complemented by information on actual programme delivery in the report of the Executive Director submitted with the audited financial statements.

C. Financial rules

65. The Commission may wish to approve the following recommendations on financial rules:

Recommendation 11. Separate financial rules should be established for the Fund of UNDCP.

Recommendation 12. The revisions of the draft financial rules of the Fund of UNDCP, presented in annex I of the present report, should be supported.

Recommendation 13. The Secretary-General should promulgate the financial rules of the Fund of UNDCP, contained in annex I of the present report.

Notes

[1] *Official Records of the Economic and Social Council, 1995, Supplement No. 9* (E/1995/29/Add.2), para. 17.

Annex I

REVISED DRAFT FINANCIAL RULES OF THE FUND OF THE UNITED NATIONS INTERNATIONAL DRUG CONTROL PROGRAMME

Article I. Applicability

Rule 1.1

These rules shall govern the financial management of the Fund of the United Nations International Drug Control Programme (hereinafter referred to as the Fund), pursuant to General Assembly resolution 45/179 of 21 December 1990, paragraphs 6 and 7. They are promulgated pursuant to the Financial Regulations of the United Nations. The Executive Director of the United Nations International Drug Control Programme shall be responsible for the administration of these rules on behalf of the Secretary-General. The Executive Director may delegate authority under these rules, as appropriate, to other officials.

Rule 1.2

Exceptions to these rules may only be made by the specific decision of the Executive Director in writing, in a manner consistent with the Financial Regulations of the United Nations.

Rule 1.3

Any matter not specifically covered by these rules shall be governed, *mutatis mutandis*, by the relevant provisions of the Financial Rules of the United Nations as subsequently amended.

Article II. Definitions

Rule 2.1

For the purpose of the Financial Rules of the Fund, the following definitions of the main entities involved in activities of the Fund shall apply:

(a) "Advisory Committee" shall mean the Advisory Committee on Administrative and Budgetary Questions;

(b) "Commission on Narcotic Drugs" shall mean the Commission on Narcotic Drugs as the principal United Nations policy-making body on drug control issues;

(c) "Executing agency" shall mean an entity to which the Executive Director has entrusted the implementation of a project;

(d) "Executive Director" shall mean the Executive Director of the United Nations International Drug Control Programme or the officials to whom he has delegated authority or responsibility for the matter in question;

(e) "Government" shall mean the Government of a State Member of the United Nations or of a State member of a specialized agency or of the International Atomic Energy Agency. "Recipient" when used in conjunction with "Government" shall mean the Government, as defined above, of a country that receives Fund assistance and applies also, *mutatis mutandis*, to all entities entitled, as a result of a decision of the Commission on Narcotic Drugs, to receive Fund assistance;

(f) "Secretary-General" shall mean the Secretary-General of the United Nations or the officials to whom he has delegated authority or responsibility for the matter in question;

(g) "United Nations International Drug Control Programme" shall mean the United Nations International Drug Control Programme established pursuant to General Assembly resolution 45/179.

Rule 2.2

For the purpose of the Financial Rules of the Fund, the following definitions in respect of specific terms used shall apply:

(a) "Agency support costs" shall mean the expenses incurred by an executing agency as a result of its administration of project activities financed from the Fund;

(b) "Allocation" shall mean a financial authorization issued by the Executive Director to incur commitments and to make expenditures for specific purposes related to Fund activities and within specified limits, during a definite period;

(c) "Appropriation" shall mean the total amount approved by the Commission on Narcotic Drugs for specified purposes in the current biennial budget against which obligations may be incurred for those purposes up to the amounts so approved;

(d) "Biennial budget" shall mean the budget covering core and programme support activities of the Fund for a period of two calendar years;

(e) "Commitment" shall mean an engagement involving a liability against resources of one or more future years entered into by the Executive Director or by an executing agency within the allocations issued to it;

(f) "Core activities" shall mean the substantive programme of work, such as normative activities, information collection and analysis, and activities required for its implementation, including executive direction and management as well as administration; core activities shall be distinguished from activities of a programme support and project nature;

(g) "Disbursement" shall mean the actual amount paid;

(h) "Expenditure" shall mean total charges incurred whether paid or unpaid, i.e. the sum of disbursements and unliquidated obligations for the current year in respect of project activities and for the biennium in respect of the biennial budget;

(i) "General fund" shall mean funds accepted by the Executive Director for purposes consistent with those of the United Nations International Drug Control Programme, without limitation as to the use for a specific purpose;

(j) "Obligation" shall mean an engagement involving a liability against the resources of the current year in respect of a project activity or of the current biennium in respect of the biennial budget;

(k) "Project" shall mean a separately identified undertaking relating to international drug control matters and directly assisting recipient organizations;

(l) "Project document" shall mean the formal document, including revisions thereof, covering the agreed arrangement for the implementation of the project;

(m) "Programme support activities" shall mean those technical and administrative support activities where a demonstrable relationship exists between the supporting activity and the implementation of project activities;

(n) "Programme support fund" shall mean funds derived according to the programme support arrangement from the execution of projects for the exclusive funding of programme support activities;

(o) "Resources" available to the Fund shall include pledges of voluntary contributions, other governmental or intergovernmental payments to the Fund, donations from non-governmental sources, interest earnings and miscellaneous income;

(p) "Trust fund" shall mean a fund or funds accepted by the Executive Director under the terms of these Financial Rules for purposes specified by the donor and consistent with the policies, aims and activities of the United Nations International Drug Control Programme;

(q) "Unliquidated obligation" shall mean an obligation or that portion of an obligation which is not yet disbursed.

Article III. Financial periods

Rule 3.1

The financial period for the purpose of both proposed utilization of resources and the incurring of and accounting for expenditure in respect of the biennial budget shall consist of two consecutive calendar years, the first of which shall be an even year.

Rule 3.2

To provide for continuity in the programming and implementation of project activities, the financial period for the purpose of the proposed utilization of resources and of the entering into commitments in respect of project activities shall be the duration of each project as specified in the project document.

Rule 3.3

The financial period for the purpose of incurring and accounting for expenditure in respect of project activities (including trust fund activities and the reimbursement of related agency support costs) shall consist of a single calendar year.

Article IV. Voluntary contributions

Rule 4.1

Voluntary contributions from Governments and intergovernmental and non-governmental sources may be accepted for purposes consistent with those of the mandate of the United Nations International Drug Control Programme.

Rule 4.2

Contributions which may directly or indirectly involve an immediate or ultimate financial liability for the Fund may be accepted only with the approval of the Commission on Narcotic Drugs.

Rule 4.3

Voluntary contributions shall be accepted as general funds without limitation as to their use for a specific purpose. The Executive Director may permit exceptions to this rule and shall report thereon to the Commission on Narcotic Drugs. Funds contributed for purposes specified by the donor shall be treated as trust funds under rule 6.5.

Rule 4.4

Voluntary contributions shall be accepted in currencies that are readily usable by the Fund, consistent with the need for efficiency and economy of operations, or convertible to the greatest possible extent into currencies readily usable by the Fund. The Executive Director may draw the attention of Governments and of other prospective donors to the currency or currencies required for the execution of Fund activities. He may negotiate with contributing Governments regarding convertibility or reconversion of voluntary contributions.

Rule 4.5

Voluntary contributions accepted by the Executive Director shall be credited to the Fund account.

Article V. Miscellaneous income

Rule 5.1

Miscellaneous income comprises all income of the fund other than:

(a) Voluntary contributions;

(b) Direct refunds of expenditure, charged in the same financial period.

Rule 5.2

Losses and gains on exchange arising from the payment of voluntary contributions from Governments shall be recorded as a debit or credit to such contributions. All other exchange adjustments shall be recorded separately and classified under miscellaneous income.

Rule 5.3

Charges or credits arising after the closure of project accounts shall be accounted for under miscellaneous income.

Rule 5.4

Proceeds from the sale of project equipment shall be credited to the accounts of that project as a reduction of expenditure, provided such accounts are still open. If they are closed, the proceeds shall be credited to the Fund account as miscellaneous income.

Rule 5.5

Refunds of expenditure of prior financial periods shall be credited to miscellaneous income.

Article VI. Fund account

Rule 6.1

There shall be established a Fund account to which all resources of the Fund shall be credited, from which all financial authorizations shall be made and against which all expenditure on behalf of the Fund shall be charged.

Rule 6.2

Within the Fund account, separate accounts shall be maintained for:

(a) A general fund;

(b) A programme support fund;

(c) Each trust fund established by the Commission on Narcotic Drugs or the Executive Director.

Rule 6.3

Working capital shall be provided from the cash resources of the Fund account.

Rule 6.4

The programme support fund shall de derived from project activities in accordance with the programme support arrangement of the United Nations International Drug Control Programme. The fund shall be used exclusively for programme support activities.

Rule 6.5

Trust funds may be established by the Commission on Narcotic Drugs or the Executive Director for specified purposes consistent with the policies, aims and activities of the United Nations International Drug Control Programme. Contributions which are accepted for purposes specified by the donor shall be treated as trust funds. Commitments under trust fund activities shall not be entered into unless and until funds sufficient to finance such commitments have been received from the donor or donors, or where there exists an agreed payment schedule covering such commitments. The procedures for the establishment and management of trust funds shall be consistent with those applicable to technical cooperation trust funds of the United Nations as promulgated by the Secretary-General. Trust funds established by the Executive Director shall be reported to the Commission on Narcotic Drugs through the Advisory Committee on Administrative and Budgetary Questions.

Article VII. Custody of funds

Rule 7.1

The Secretary-General shall act as custodian of the funds in the Fund account and shall designate the bank or banks in which such funds shall be kept.

Rule 7.2

The Secretary-General may delegate to the Executive Director such authority with respect to custody of funds, including the authority to designate the banks in which the funds of the Fund shall be kept, as

would facilitate the efficient and effective management of the Fund, which delegation shall be acknowledged in writing.

Rule 7.3

Rules 108.1 to 108.12 of the Financial Rules of the United Nations shall apply, *mutatis mutandis*, to the receipt, management and disbursement of the funds in the Fund.

Article VIII. Investment of funds

Rule 8.1

Account being taken of the objectives of the Fund, and in the light of specific requirements of its operations as determined by the Executive Director, funds not required immediately may be invested by the Secretary-General, in consultation with the Executive Director.

Rule 8.2

Income derived from investments, other than trust fund investments, shall be credited to the general fund as miscellaneous income. Income derived from investment of trust funds shall be credited to the respective trust funds, unless otherwise specified.

Article IX. Financing the Fund activities

Rule 9.1

The financial resources of the Fund are to be available at all times to the maximum extent possible for Fund purposes, subject only to the maintenance on a continuous basis of an operational reserve. After provision has been made annually for the biennial budget from the general fund and the programme support fund, all resources not otherwise committed or reserved can be utilized for project activities.

Rule 9.2

There shall be established an operational reserve under the general fund and the programme support fund, the level of which shall be determined from time to time by the Commission on Narcotic Drugs on the recommendation of the Executive Director. The purposes of the operational reserve shall be to guarantee the financial liquidity and integrity of the Fund, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the Commission on Narcotic Drugs. The latter shall keep the level and composition of the operational reserve under constant review, taking into account the estimated income and expenditure for the following financial year.

Rule 9.3

There shall be established such other reserves as may be approved by the Commission on Narcotic Drugs.

Article X. Outline and biennial budget

Rule 10.1

The Executive Director shall prepare an outline of the Fund for the following biennium, which shall contain preliminary estimates of resources available and programme priorities, reflecting general trends of a broad sectoral nature.

Rule 10.2

The Executive Director shall prepare a biennial budget, based on the approved outline of the Fund, sufficient to cover all anticipated core and programme support activities in a form consistent with relevant United Nations budgetary regulations, rules, policies and practices. The biennial budget shall cover proposed expenditure and anticipated income related to the biennial budget, and may include provision for contingencies. The biennial budget shall be accompanied and supported by a detailed presentation of planned and anticipated project activities during the biennium, including projects funded from trust fund resources.

Rule 10.3

The outline and the biennial budget shall be submitted to the Advisory Committee on Administrative and Budgetary Questions for examination and comment. Subsequently, the budget estimates and the comments and recommendations of the Advisory Committee shall be submitted to the Commission on Narcotic Drugs for approval and appropriation.

Rule 10.4

Supplementary budget estimates, prepared in a form consistent with the budget, may be submitted by the Executive Director to the Commission on Narcotic Drugs, together with the comments and recommendations thereon of the Advisory Committee.

Article XI. Allocation of funds by the Executive Director

Rule 11.1

The Executive Director may allocate funds for core and programme support activities in accordance with the biennial appropriation approved by the Commission on Narcotic Drugs. The appropriation constitutes an authorization to the Executive Director to incur obligations and to make payments for the purposes for which the appropriations were approved and up to the amount so approved. Rules 110.1 to 110.9 of the Financial Rules of the United Nations shall apply, *mutatis mutandis*, to the administration of the biennial budget.

Rule 11.2

The Executive Director may allocate funds for project activities within the policy guidance given by the Commission on Narcotic Drugs and consistent with the policies, aims and activities of the United Nations International Drug Control Programme. Such allocations shall be consistent with the project budgets contained in the approved project document or similar instruments. For the purposes of rule 11.3 below, the project budget shall be presented in annual segments.

Rule 11.3

An allocation by the Executive Director, which authorizes the incurring of expenditure and the entering into commitments, shall constitute a ceiling on expenditure for the current year and, in connection with project activities, on commitments for future years.

Rule 11.4

Whenever a project budget ceases to reflect actual circumstances or current expectations in any significant respect, it shall be revised accordingly. The approval of the United Nations International Drug Control Programme and of the executing agency shall be required for all project budget revisions. Where a revision involves an increase in the total budgeted amount, the approval of the recipient Government will also be required.

Rule 11.5

An allocation shall be available for expenditure and for commitment for the duration of the project to which it relates. Following the operational completion of the project, the project budget shall be revised to reflect actual expenditure incurred and shall constitute the final allocation for the Fund's assistance to the project. The final allocation shall remain available for the period of time required to discharge any outstanding legal obligations of the project. This period shall normally not exceed twelve months after the month in which the project was operationally completed. When all legal obligations against the final allocation have been discharged, the project shall be financially completed, and any balance remaining shall revert to the general fund or, in the case of trust fund activities, to the relevant trust fund and shall be classed as miscellaneous income.

Rule 11.6

After the financial completion of a project, any unforeseen disbursements or refunds and any deficit or savings on the liquidation of obligations shall be charged or credited, as the case may be, to the general fund or, in the case of trust fund activities, to the relevant trust fund, under miscellaneous income. Such net adjustments as exceed $25,000 on account of a financially completed project shall be referred to the Executive Director.

Rule 11.7

Allocations for the biennial core and programme support budget shall remain available for twelve months following the end of the financial period to which they relate, to the extent that they are required to discharge obligations in respect of goods supplied or services rendered in the financial period and to liquidate any other outstanding legal obligation of the financial period. The balance of the allocation shall revert to the general fund or programme support fund, as the case may be, and shall be classed as miscellaneous income.

Rule 11.8

Staff or consultants whose emoluments will be paid from the resources of the Fund may only be engaged with the written authority of the Executive Director and within the allotments or other limits approved for that purpose. The appointment of such staff and consultants shall be limited to service with the United Nations International Drug Control Programme. The Executive Director, or the officials to whom authority has been delegated by him, shall be responsible for ensuring that the terms of employment of staff or consultants conform to the terms of the Staff Regulations and Staff Rules of the United Nations.

Article XII. Contracts and purchases

Rule 12.1

When provision is made in the core and programme support budget or in project budgets for equipment, supplies or services to be supplied by the Fund, the Executive Director shall be responsible for the purchase of equipment and supplies and the contracting of services. To that end, he may enter into arrangements with the United Nations or an executing agency or agencies to employ the procurement services thereof, in which case the relevant financial rules and procedures of the organization concerned shall apply. Procurement activities that are not covered by the aforesaid arrangements shall be governed by rules and procedures promulgated by the Executive Director; such rules and procedures shall be patterned on rules 110.16 to 110.24 of the Financial Rules of the United Nations.

Article XIII. Internal control

Rule 13.1

Only those officials designated by the Executive Director as approving officers may approve obligations or proposals for the incurring of expenditure and payments for recording in the accounts. Any such obligations or proposals for the incurring of expenditure must have been duly certified by certifying officers designated by the Executive Director for that purpose. Except in the case of small field offices, no person shall perform the functions of both an approving officer and a certifying officer at the same time.

Rule 13.2

The Executive Director may make *ex gratia* payments not exceeding $40,000 as he deems to be necessary in the interest of the Fund, provided that a statement of such payments shall be submitted to the General Assembly and the Commission on Narcotic Drugs with the accounts. *Ex gratia* payments may be made in cases where, although in the opinion of the Office of Legal Affairs of the United Nations Secretariat there is no legal liability on the Fund, the moral obligation is such as to make payment desirable in the interest of the Fund.

Article XIV. Executing agencies

Rule 14.1

The following entities may be entrusted by the Executive Director with the implementation of Fund assistance to projects:

(a) Recipient Governments;

(b) Organizations of the United Nations system, namely the United Nations, the specialized agencies, the International Atomic Energy Agency and other organizations that are or become part of the United Nations system;

(c) Governmental and intergovernmental institutions or agencies that are not part of the United Nations system;

(d) Non-governmental organizations;

(e) The United Nations International Drug Control Programme itself.

An entity so entrusted shall be known as the executing agency for the project in question.

Rule 14.2

In consultation with and with the agreement of the recipient Government or Governments, the Executive Director shall designate a single executing agency for each project. With the agreement of the recipient Government or Governments and of the Fund, the designated executing agency may associate one or more other agencies with it in the implementation of the project. A project document shall be drawn up for each project.

Rule 14.3

The agreement between the executing agency and the Fund shall include:

(a) The respective responsibilities of the executing agency and the Fund in formulation, execution, monitoring and evaluation of the project;

(b) Arrangements for the disbursement of funds, including the reimbursement of support costs, to the executing agency;

(c) Arrangements for internal and external auditing, financial and non-financial reporting and other requirements in respect of accountability for funds of the Fund;

(d) Any other arrangements which are necessary for the Executive Director to follow the execution of projects or which would otherwise enable him to exercise his accountability.

Rule 14.4

Allocations issued by the Executive Director to executing agencies for projects to be carried out by the said agencies shall be administered by them under their respective financial regulations, rules, procedures and practices.

Rule 14.5

The Executive Director shall secure from each executing agency assurances that it will maintain such accounts and records as are necessary to enable it to report on the financial status of funds obtained from the Fund, including in particular their total recorded allocations, disbursements, unliquidated obligations, commitments, cash holdings and other financial data.

Article XV. Accounts

Rule 15.1

The Executive Director shall maintain such accounts and records as are necessary to enable him to report on the Fund account to the Commission on Narcotic Drugs and the General Assembly.

Rule 15.2

Financial reports on the Fund account shall be presented in United States dollars. Accounting records, however, may be kept in such currency or currencies as the Executive Director may deem necessary.

Rule 15.3

The Executive Director shall have prepared and certified as correct biennial financial statements showing the status of the Fund account and including supporting schedules. The Executive Director shall submit these biennial financial statements to the Board of Auditors of the United Nations not later than 30 April following the end of the year in question.

Rule 15.4

The financial statements of the Fund shall be prepared and presented in conformity with common accounting standards of the United Nations system. The financial statements shall include:

(a) Status of approved budget;

(b) Statement of income and expenditure;

(c) Statement of assets and liabilities, reserves and fund balances;

(d) Such other statements as may be required.

Rule 15.5

The financial statements of the Fund shall be classified under general fund, programme support fund and trust funds. These statements will be supported by:

(a) Appropriate notes;

(b) Schedule of voluntary contributions;

(c) Schedule of operating funds advanced to agencies;

(d) Such other schedules as may be required.

Rule 15.6

Financial transactions shall be recorded in the accounts on an accrual basis, except as may be otherwise permitted under the common accounting standards of the United Nations system or required by the terms of any trust fund. Any changes from the accrual basis of accounting and reasons therefor must be approved by the Executive Director and fully disclosed in the financial statements.

Rule 15.7

The operational rates of exchange shall be those established by the Secretary-General and communicated to the Executive Director.

Rule 15.8

When the United Nations operational rate of exchange for a particular currency is revised, the Executive Director shall revalue the balance of cash and other assets or liabilities in that currency and shall charge or credit the exchange adjustment to a central account, the balance of which at year-end shall be classified under miscellaneous income. Exchange adjustments resulting from the payment of government contributions shall

be recorded separately from those exchange adjustments from other transactions and shall be offset to those contributions.

Rule 15.9

For the purpose of recording in the Fund account voluntary contributions pledged in currencies other than United States dollars, the United Nations operational rate of exchange in effect on the date of the pledge shall be used.

Rule 15.10

For the purpose of recording all other transactions in the Fund account, the United Nations operational rate of exchange in effect on the date of the transaction shall be used.

Article XVI. Audit

Rule 16.1

The accounts showing the status of the Fund, with audit opinion and report from the Board of Auditors of the United Nations, shall be transmitted by the Executive Director to the Advisory Committee on Administrative and Budgetary Questions, the Commission on Narcotic Drugs and the General Assembly.

Rule 16.2

All financial transactions and related activities covered by these rules shall be subject to audit by the Office of Internal Oversight Services of the United Nations Secretariat.

Article XVII. General provisions

Rule 17.1

Every official of the United Nations International Drug Control Programme is responsible to the Executive Director for the regularity of the actions taken by him or her in the course of his or her official duties. Any official who takes any action contrary to these financial rules, or to the administrative instructions issued in connection therewith, may be held personally responsible and financially liable for the consequences of such action.

Rule 17.2

These rules may be amplified by administrative instructions issued by the Executive Director.

Rule 17.3

These rules shall be effective as of 1 January 1998. If a consequential change in these rules is required in order to conform with a change made by the General Assembly in the Financial Regulations of the United Nations, the effective date of such change in the rules shall be the effective date of the revision of the applicable regulation.

Annex II

COMPARISON OF THE REVISED DRAFT FINANCIAL RULES OF THE FUND OF THE UNITED NATIONS INTERNATIONAL DRUG CONTROL PROGRAMME AND THE INITIAL DRAFT FINANCIAL RULES OF THE FUND

Article		*Rule number*		*Change*	*Comments and reasons*
		New	*Old*		
I.	Applicability	1.1	1.1	None	
		1.2	1.2	None	
		1.3	1.3	None	
II.	Definitions	2.1 and 2.2	-	Definitions were added.	It was considered necessary to define main entities and terms used; definitions are in line with those used by the United Nations, United Nations Environment Programme, the United Nations Development Programme (UNDP) and the United Nations Population Fund.
III.	Financial periods	3.1	2.3	"Administrative and programme support costs budget" was deleted and replaced by "biennial budget".	The change was made to reflect the new budget concept.
		3.2	2.1	"Project activities" replaced "fund assistance to projects" and "programme activities".	The change was made to make the definition of terms clearer.
		3.3	2.2	"Project activities" replaced "programme activities" and "programme reserve".	The change was made to make the definition of terms clearer.
IV.	Voluntary contributions	4.1	3.1	None	
		4.2	3.2	None	

Article	Rule number		Change	Comments and reasons
	New	Old		
	4.3	3.2	The new term "general fund" was added; exceptions to general-purpose contributions to be reported to the Commission on Narcotic Drugs; contributions used for a special purpose to be treated as trust funds.	The change was needed to clarify the treatment of contributions used for a general or specific purpose; reporting of exceptions to the Commission is consistent with other rules.
	4.4	3.3	None	
	4.5	3.4	None	
V. Miscellaneous income	5.1	4.1	"Charged in the same financial period" was added for expenditure refunds.	Expenditure refunds of the same financial period are credited to the original charge and not to miscellaneous income.
	5.2	4.2	None	
	5.3	4.3	None	
	5.4	4.4	None	
VI. Fund account	6.1	5.1	"Financial authorizations" replaced "allocations".	The change was made to cover both appropriations and allocations.
	6.2	5.2	Reference to "reserves" was removed; "general fund" and "programme support fund" accounts were introduced.	Treatment of reserves is better dealt with under article IX, entitled "Financing the Fund activities". The Fund account was redefined to reflect the introduction of a programme support arrangement and the distinction between general fund and trust funds.
	6.3	5.3	None	
	6.4	-	A new rule on the derivation and use of a programme support fund was introduced.	The change was made to properly reflect the introduction of a programme support arrangement.

Article		Rule number New	Rule number Old	Change	Comments and reasons
		6.5	5.4	The requirement of the Executive Director to report more than $100,000 in trust fund contributions to the Commission was deleted; instead, all trust funds established by the Executive Director shall be reported to the Commission through the Advisory Committee on Administrative and Budgetary Questions (ACABQ).	The change was made to ensure consistency with the budget approval process and reporting of trust funds in the United Nations system.
VII.	Custody of funds	7.1	6.1	None	
		7.2	6.2	None	
		7.3	6.3	None	
VIII.	Investment of funds	8.1	7.1	None	
		8.2	7.2	"Fund account" was replaced by "general fund".	It was necessary to specify under which Fund account investment income accrues.
IX.	Financing the Fund activities	9.1	8.1	"Fund programme purposes" was replaced by "Fund purposes"; "financial reserve" was replaced by "operational reserve"; reference is now made to the "biennial budget" and "general fund" and "programme support fund" instead of "programme support costs and administrative costs of the fund".	The rule was updated to incorporate important new terms; however, in essence it remains unchanged.
		9.2	8.2	"Operational reserve" replaced "financial reserve". The operational reserve will be established under the "general fund and programme support fund".	As in the UNDP model, the term "operational" is considered more comprehensive and suited to reflect the purposes of the reserve described in the rule. The reserve will be split according to its funding source.
		9.3	8.3	The establishment of a separate "Fund programme reserve" was deleted; instead, the provision for "such other reserves" as may be approved by the Commission was shifted from old rule 5.2 to new rule 9.2	Programming experience shows that the purposes foreseen for the Fund programme reserve can be more easily accommodated through reprogramming planned activities; hence, the deletion.

Article	Rule number New	Rule number Old	Change	Comments and reasons
X. Outline and biennial budget	-		A new rule on outline was added.	The change was made in accordance with Commission resolution 13 (XXXVI), paragraph 7.
	10.2	9.1	The new budget concept of "core and programme support activities" is covered by the introduction of the "biennial budget" instead of "administrative and programme support costs". The biennial budget based on an approved outline is to cover both "proposed expenditure and anticipated income" and to be "supported by a detailed presentation of planned and anticipated project activities".	The new concept takes into account the recommendations of ACABQ and the Commission.
	10.3	9.2	"Outline and biennial budget" is specified and not limited to "budget estimates".	The change was made in order to be consistent with the new budget concept.
	10.4	9.3	None	
XI. Allocation of funds by the Executive Director	11.1	9.4	The "biennial budget" distinguishes between "core and programme support activities" and resources are "appropriated" by the Commission (instead of "the budget", after Commission approval, merely constituting an authorization to spend).	It was necessary to clarify the distinction between biennial budget appropriations by the Commission and allocations made by the Executive Director and to make the rule consistent with the new budget concept.
	11.2	10.1, 10.2 and 10.3	References to "Fund programme, programme reserve and trust fund activities" and "administrative and programme support costs" are deleted; instead, allocations are made for "project activities" within Commission policy guidance and consistent with policies, aims and activities of the United Nations International Drug Control Programme.	The introduction of the new budget concept requires the project allocation approval process to be specified and distinguished from that for core and programme support activities.
	11.3	10.4	"Fund's assistance to the project" was replaced by "project activities".	The change was made to be consistent with the new budget concept.

Article	Rule number New	Rule number Old	Change	Comments and reasons
	11.4, 11.5 and 11.6	10.5, 10.6 and 10.7	None	
	11.7	10.8	"Biennial administrative and programme support costs budget" was replaced by "biennial core and programme support budget"; and "Fund account" was replaced by "general fund or programme support fund". The changes were made because of the introduction of new terms; however, the rule remains essentially unchanged.	
	11.8	10.9	None	
XII. Contracts and purchases	12.1	11.1	"After taking into account the operational exigencies of the Fund" was added onto the sentence on rules and procedures to be patterned on United Nations financial rules.	The addition was considered necessary to reflect the uniqueness and geographical spread of the Fund's operations.
XIII. Internal control	13.1 and 13.2	12.1 and 12.2	None	
XIV. Executing agencies	14.1, 14.2, 14.3, 14.4 and 14.5	13.1, 13.2, 13.3, 13.4 and 13.5	None	
XV. Accounts	15.1 and 15.2	14.1 and 14.2	None	

Article	*Rule number* *New*	*Old*	*Change*	*Comments and reasons*
	15.3	14.3	"31 March" was changed to "30 April".	Experience has shown that the deadline for submitting financial statements needs to be extended as certified executing agency reports are not submitted on time to meet the 31 March deadline.
	15.4	-	A new rule was added specifying the financial statements and the basis of their preparation and presentation.	The introduction of United Nations common accounting standards requires this change. It is also in line with the financial rules of other United Nations entities.
	15.5	-	A new rule was added specifying supporting schedules and notes; classification of financial statements into Fund type.	This rule is in the financial rules of other United Nations entities. Fund classification follows new rule 6.2.
	15.6	-	A new rule was added on accrual basis of accounting and its permitted modification.	The change was made to conform with United Nations common accounting standards.
	15.7, 15.8, 15.9, and 15.10	14.4, 14.5, 14.6 and 14.7	None	
XVI. Audit	16.1	15.1	None	
	16.2	-	A new rule on audit by the Office of Internal Oversight Services of the United Nations Secretariat was added.	
XVII. General provisions	17.1, 17.2 and 17.3	16.1, 16.2 and 16.3	None	